



Dealing with the Gathering Clouds

Regional Economic Outlook for sub-Saharan Africa

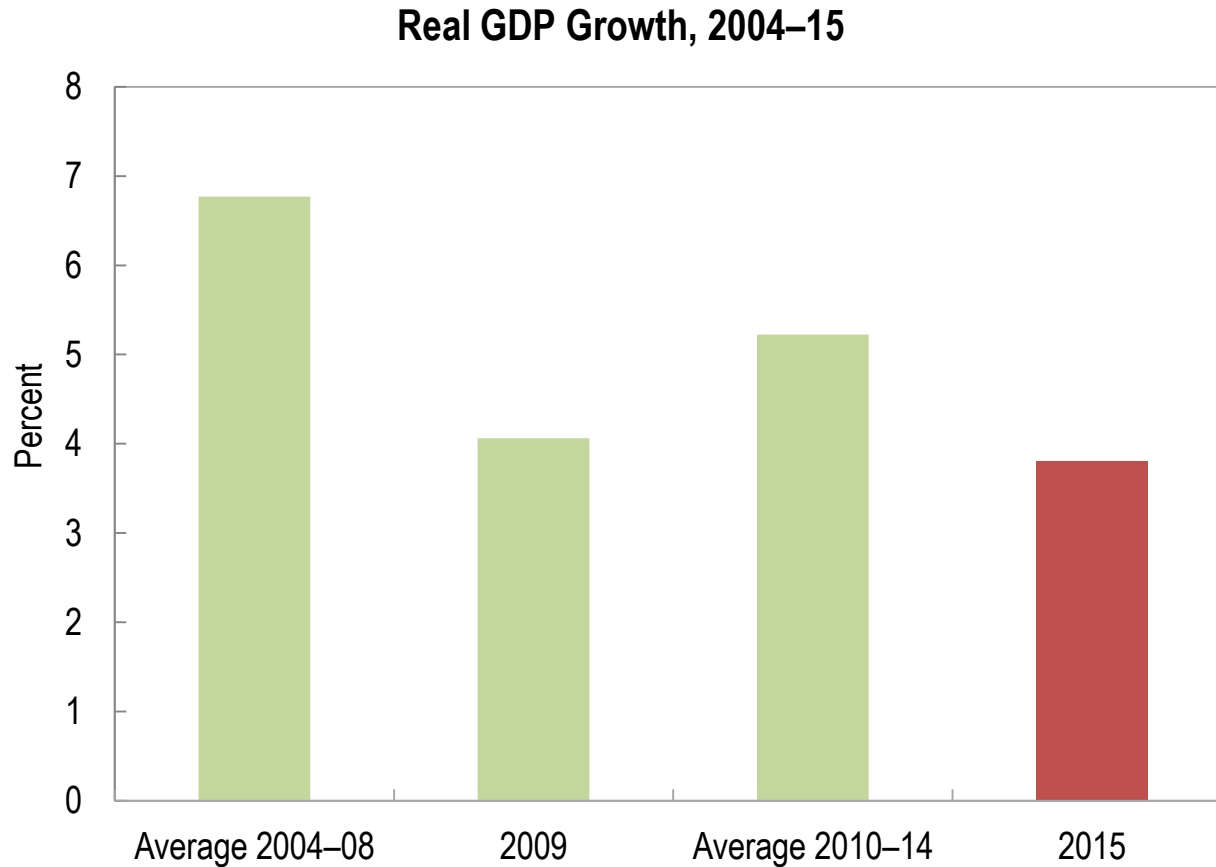
Christian Beddies

Resident Representative, Zimbabwe

International Monetary Fund

November 11, 2015

Growth in sub-Saharan Africa has weakened markedly...



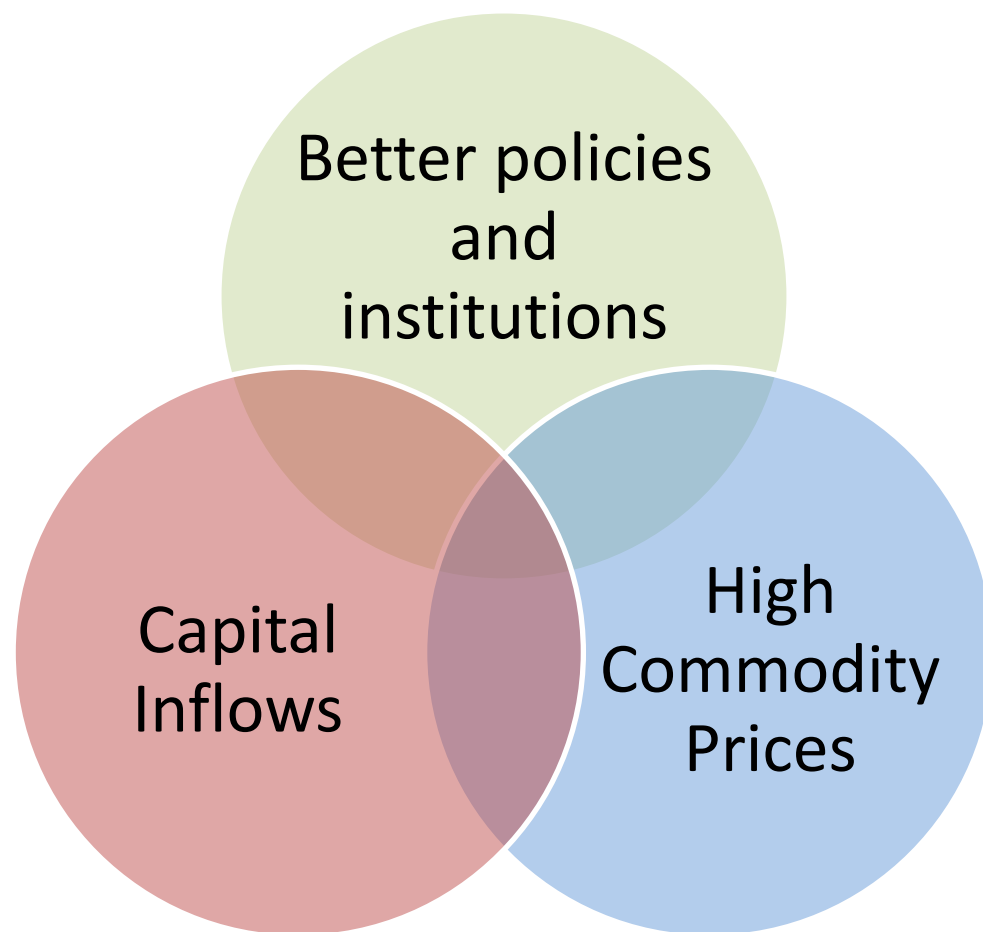
Outline



- External headwinds
- Domestic environment and outlook
- Policy implications



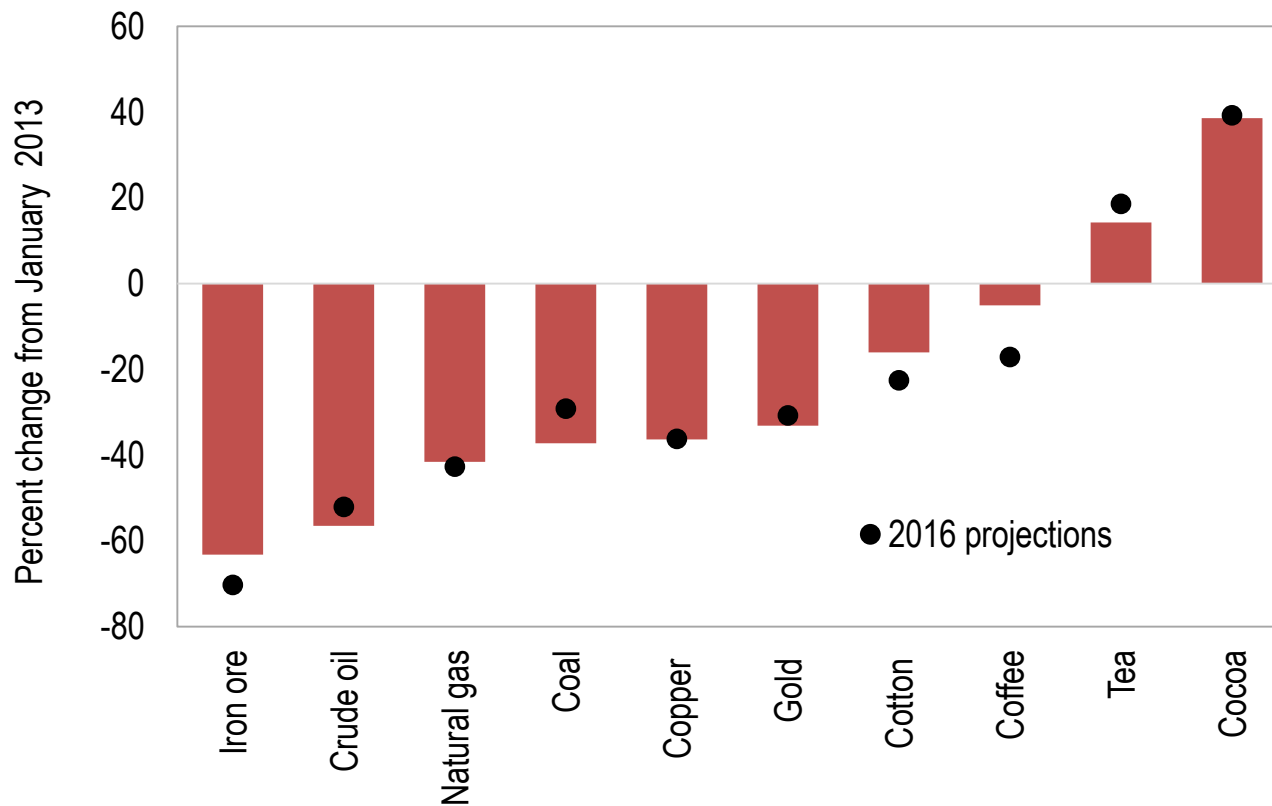
Three key factors have underpinned the solid performance of the last decade



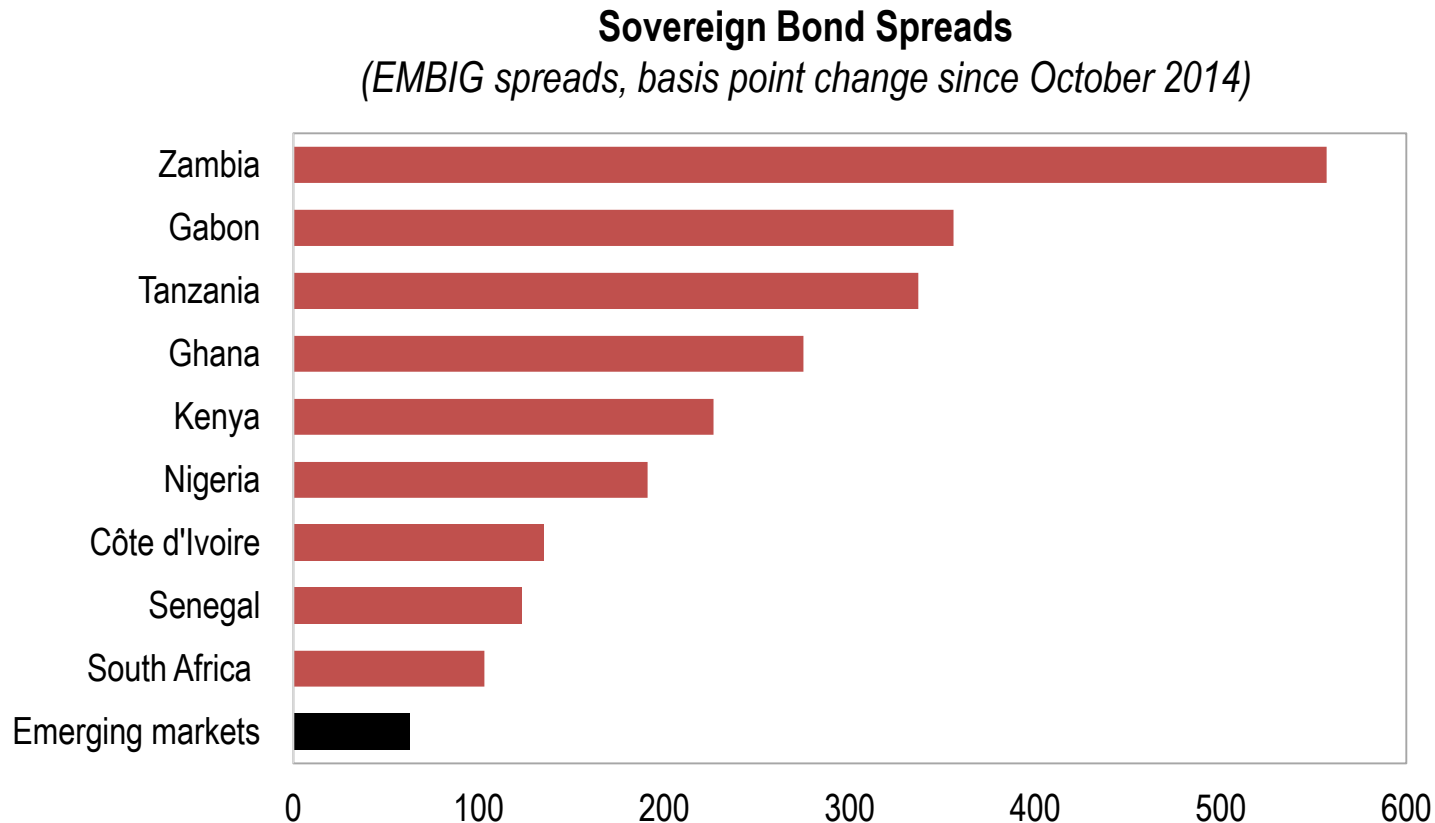
Of late, two of these factors have become less supportive. Commodity prices have weakened...



Selected Commodity Prices, Jan 2013–Aug 2015



...and financing conditions are tightening

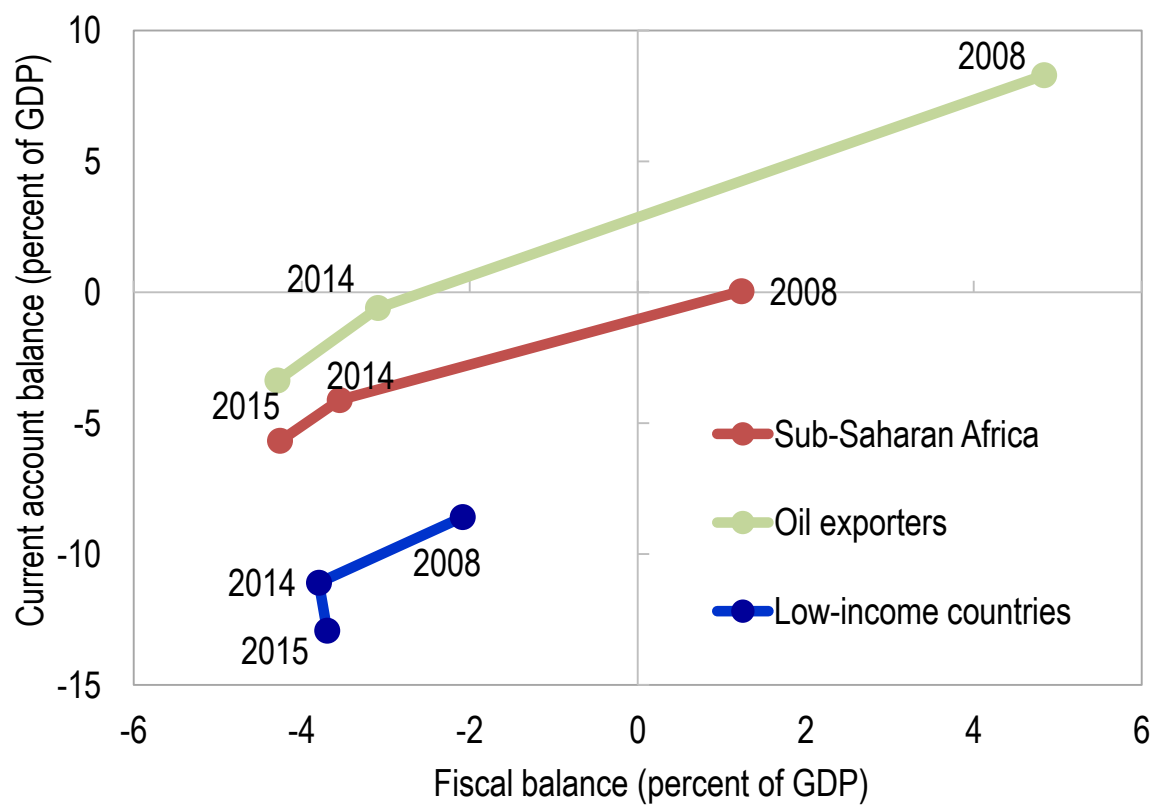


Note: Data as of October 23, 2015.

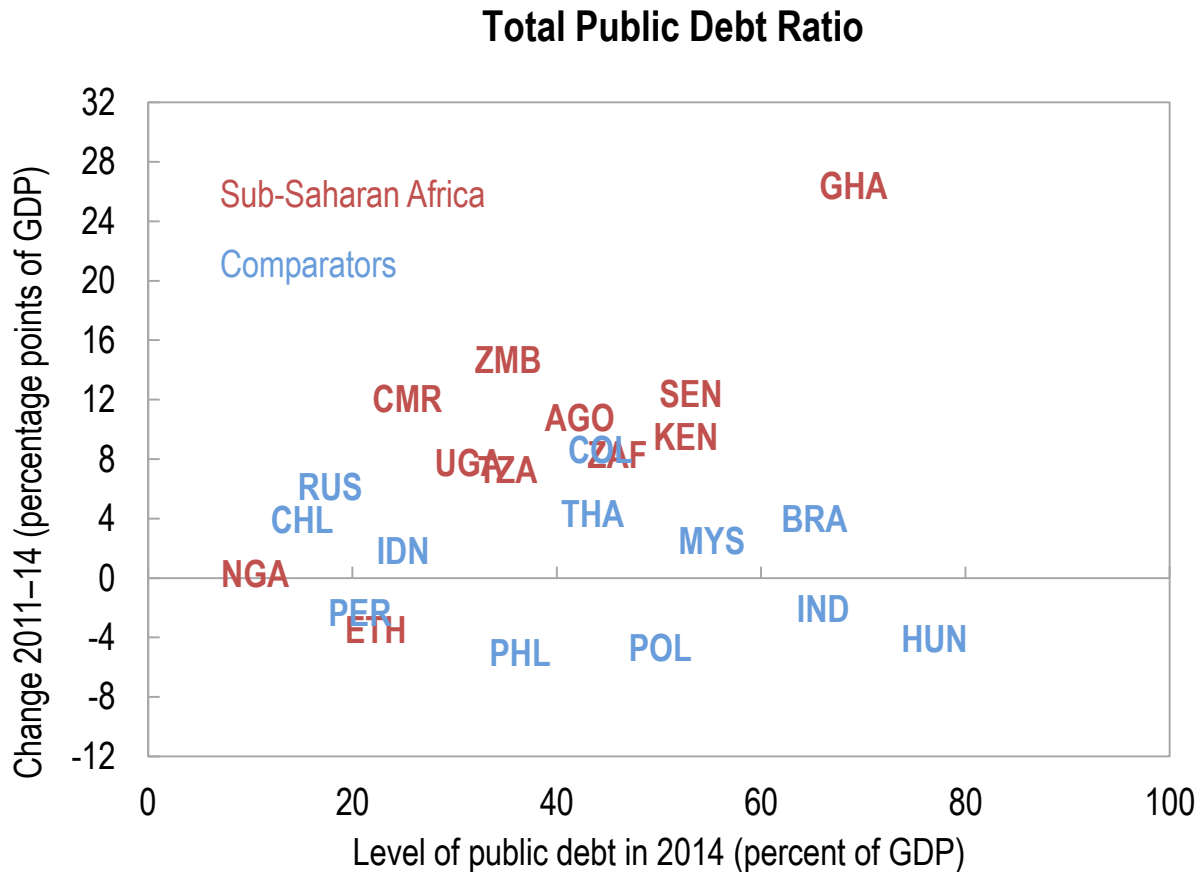


External and fiscal positions are weaker than in 2008...

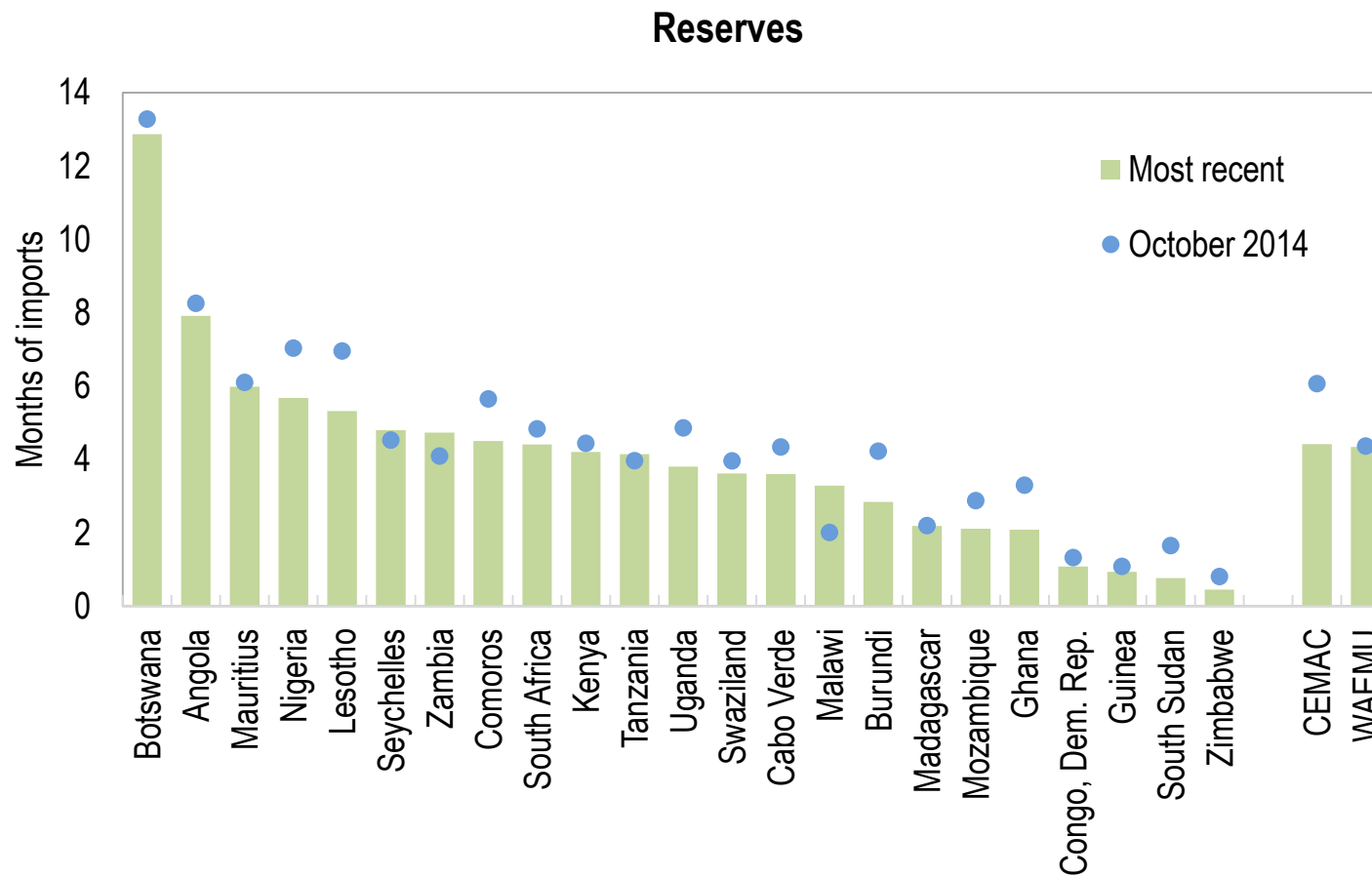
Current Account Balance and Fiscal Balance, 2008–15



...and in frontier economies public debt is increasing



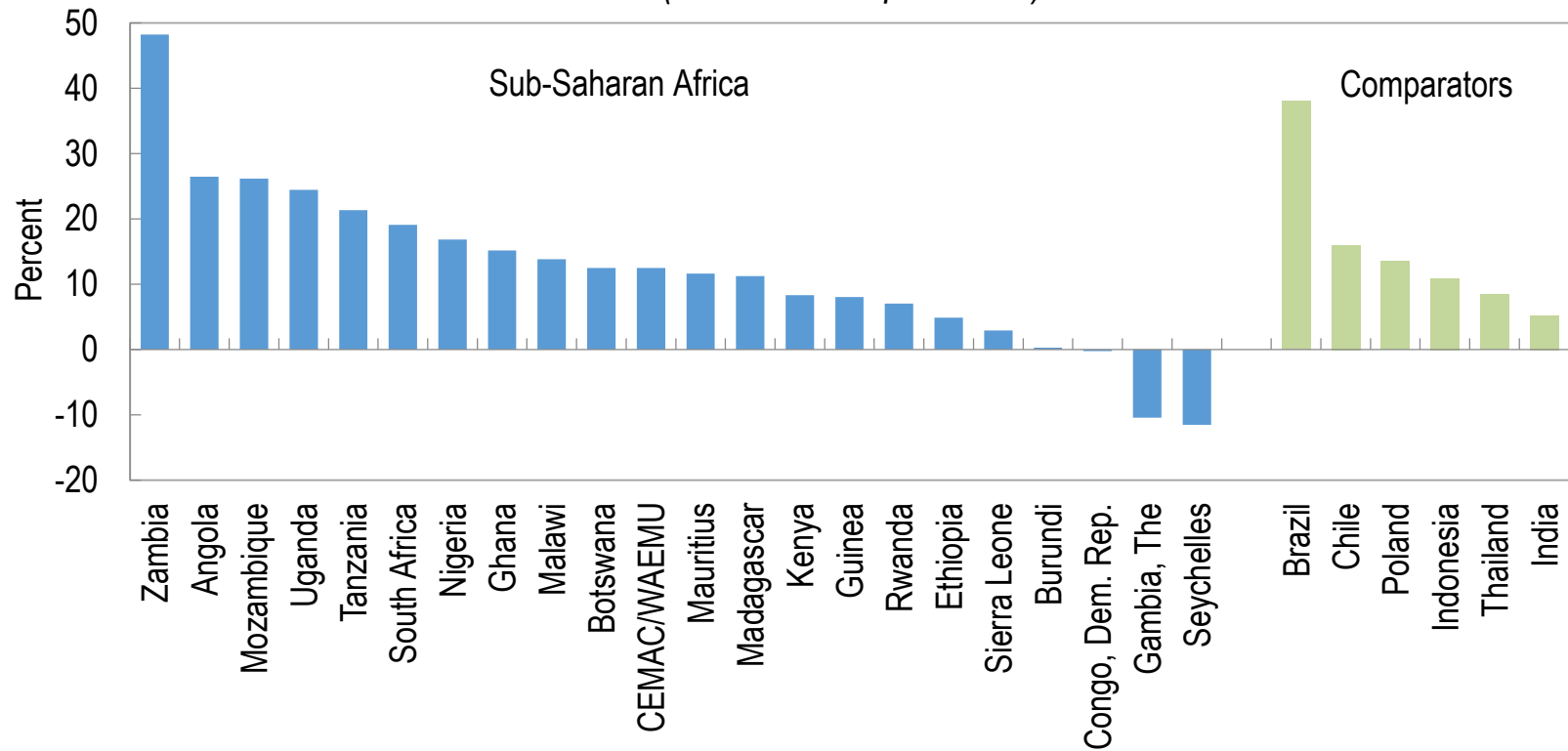
Some countries have drawn on their foreign exchange reserves...



...but most have also let their currencies depreciate



Depreciation of National Currency Against U.S. Dollar Since October 2014
(+ indicates depreciation)

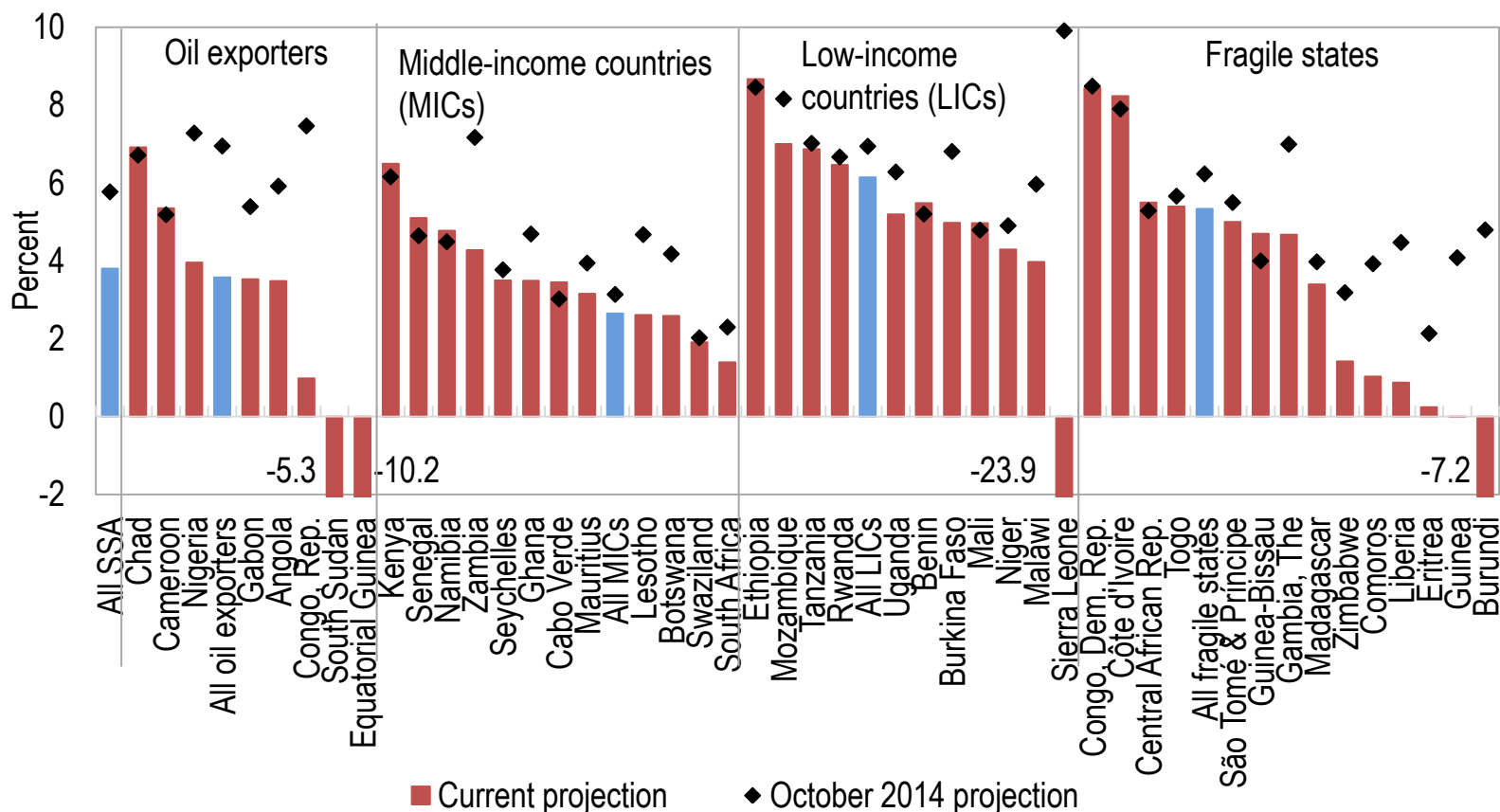


Note: Data as of October 23, 2015.

The upshot is a sharp growth deceleration, with some variation across the region



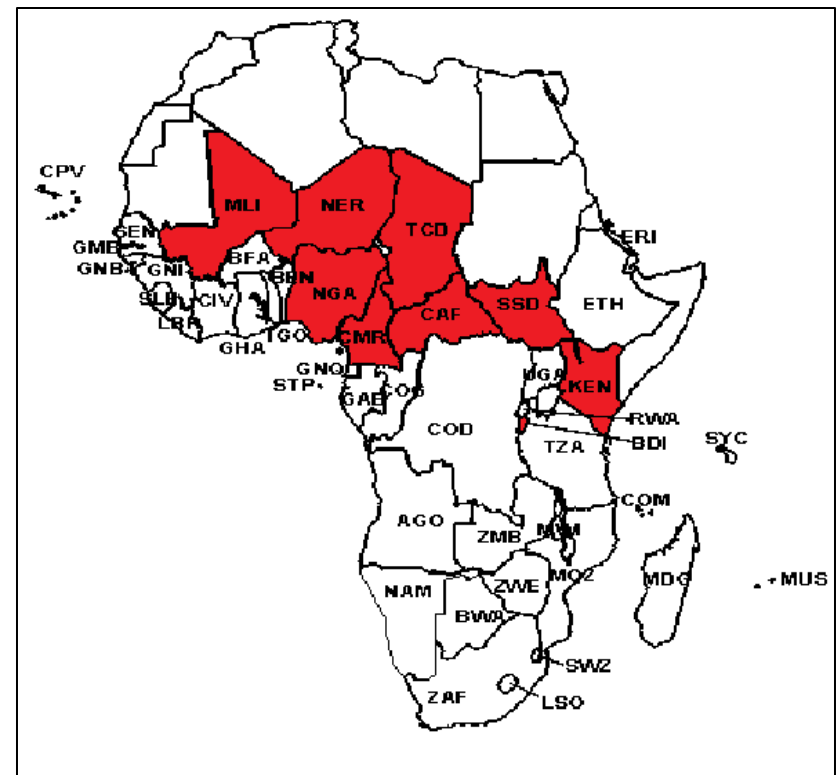
Real GDP Growth Projections, 2015, Current Projections versus October 2014 Projections



Risks to this outlook are tilted to the downside



- **Security-related risks still prevail in a number of countries** →
- **Commodity prices could fall still further, especially in the event of a more rapid slowdown in China**
- **A sharp global reallocation of financial assets could lead to rapid capital outflows from the region's frontier markets**



Near-term policy implications: Limited scope to counter the drag on growth



Fiscal policy:

- For oil exporters, adjustment is unavoidable
- For most others, need to balance debt sustainability considerations and development spending

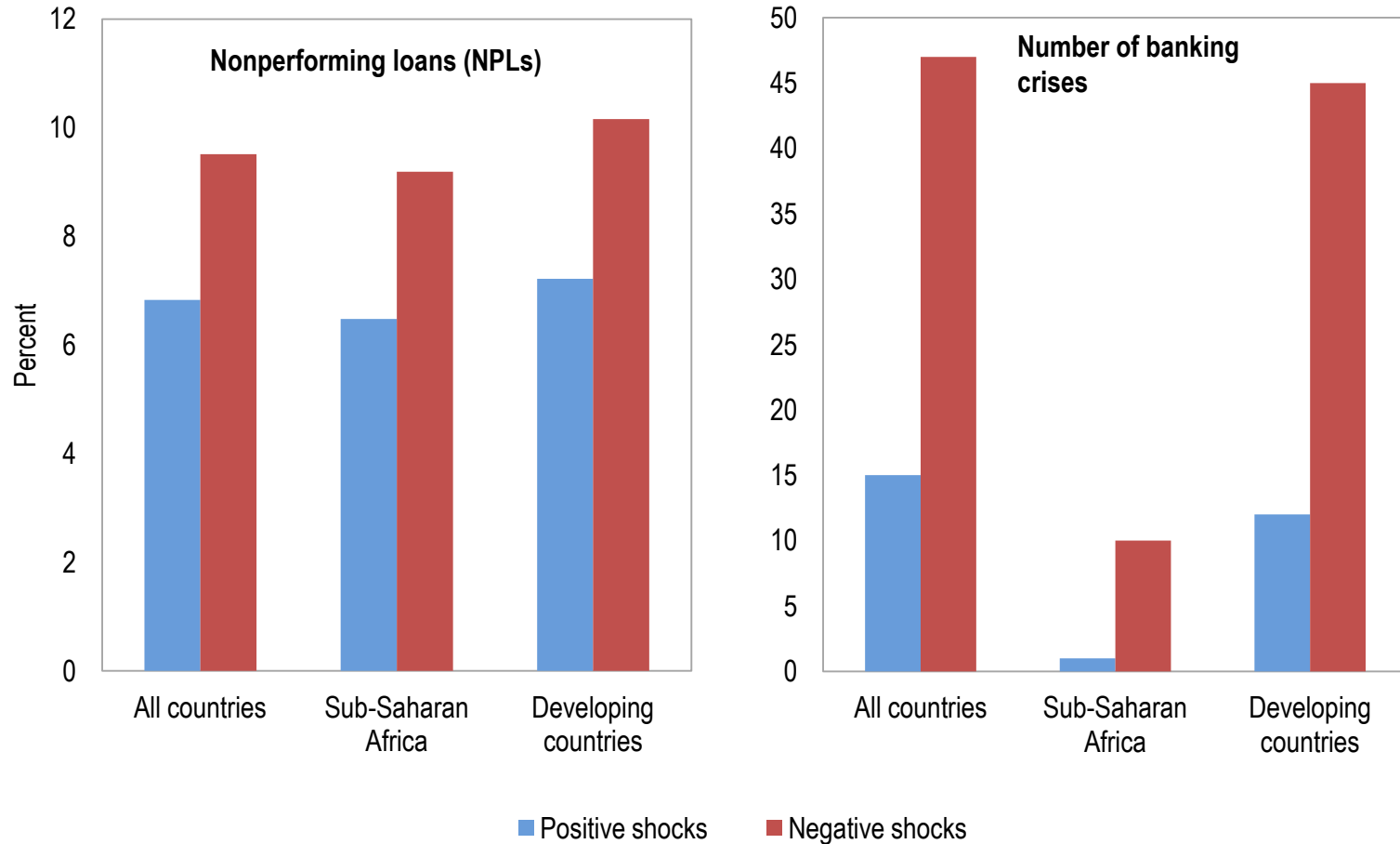
Monetary policy

- Exchange rate should absorb the shock, wherever feasible
- Interventions should be limited to contain exchange rate excessive volatility

Financial stability will also require close monitoring



Commodity Price Shocks and Indicators of Financial Sector Fragility



Medium-term considerations

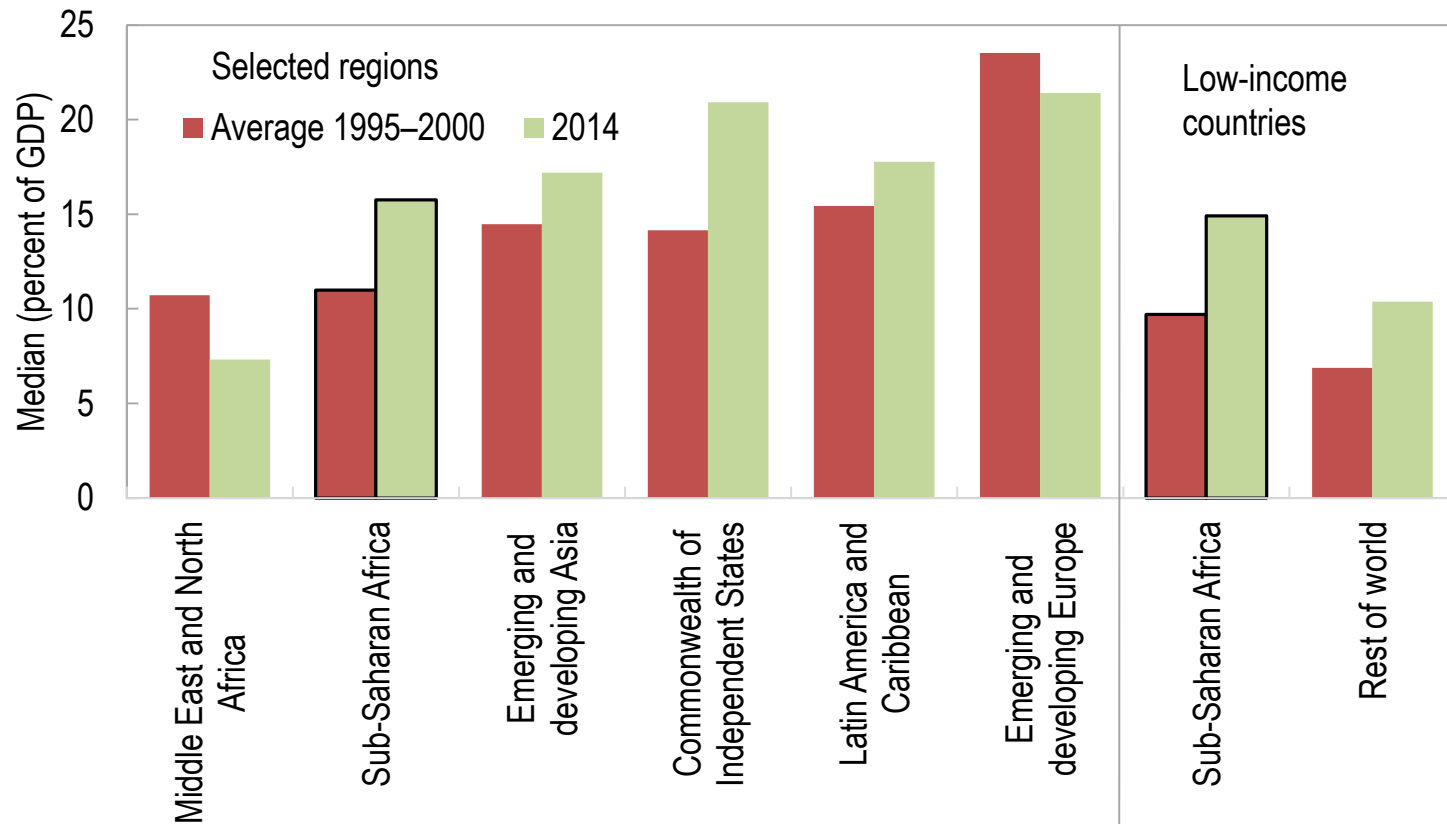


- Policy actions need to be geared toward boosting the region's competitiveness
- Strengthening revenue mobilization will be the most durable way to create fiscal space

Tax revenue mobilization: Good progress to date...



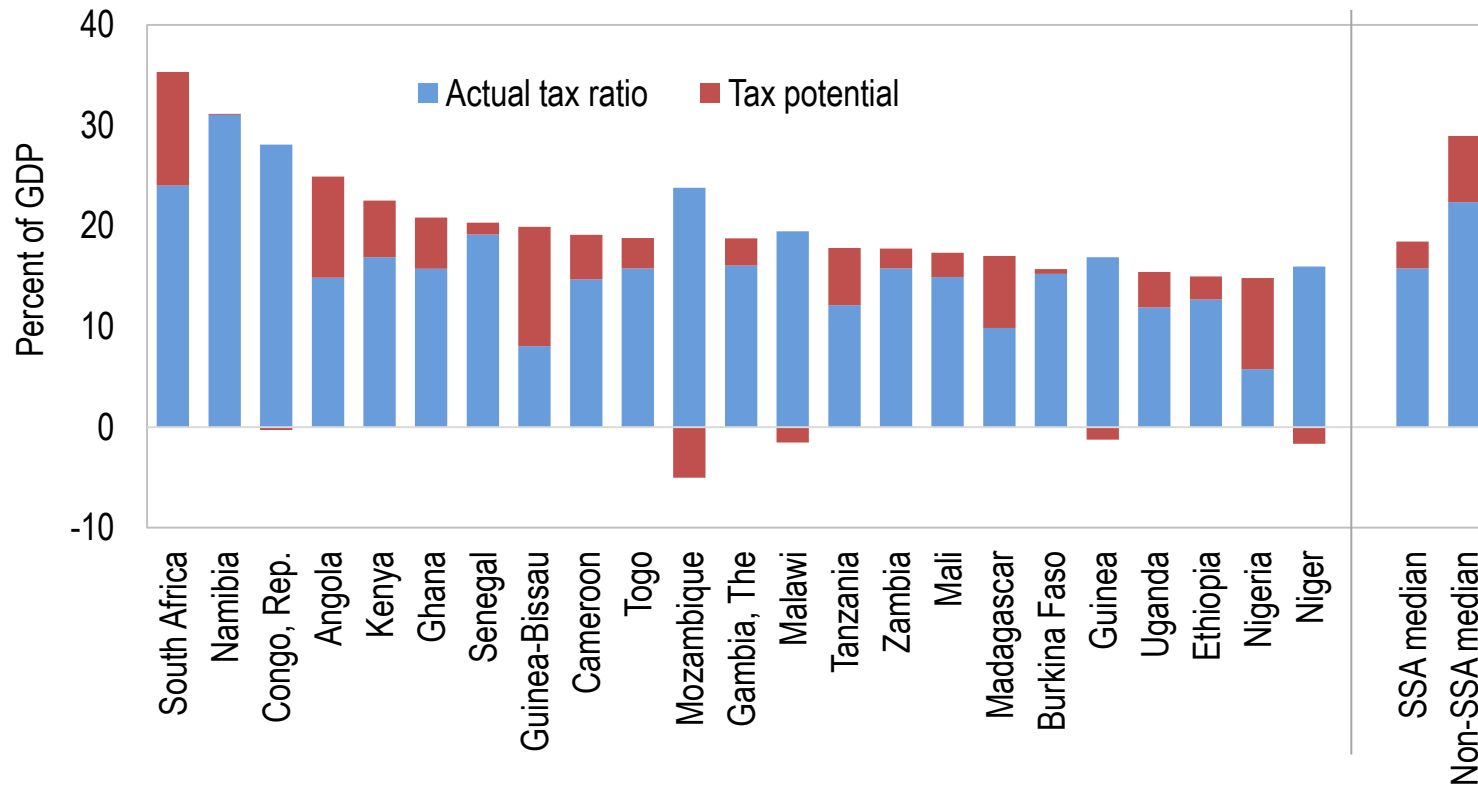
Total Tax Revenue, 1995-2000 and 2014



...but still potential for significant improvement



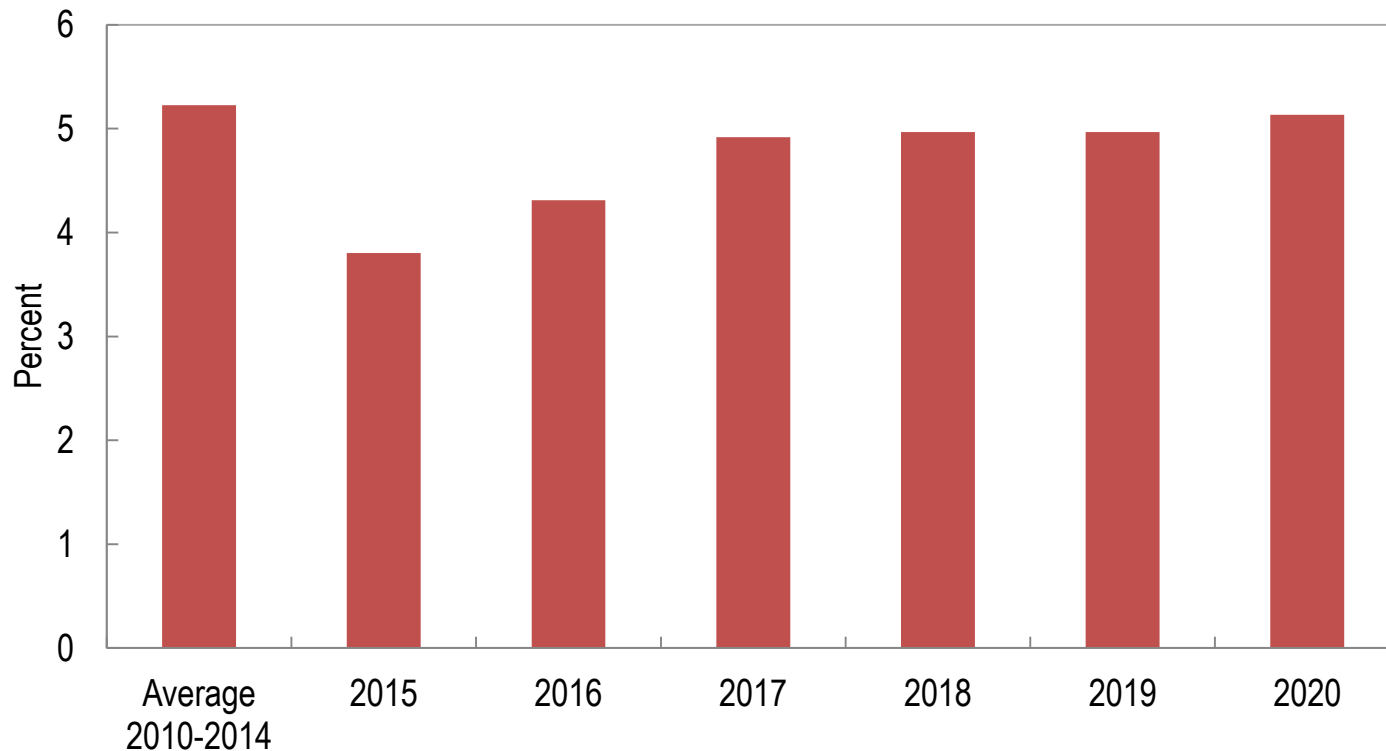
Tax Ratio and Potential, 2014



With the right policies, growth should strengthen again in the medium term



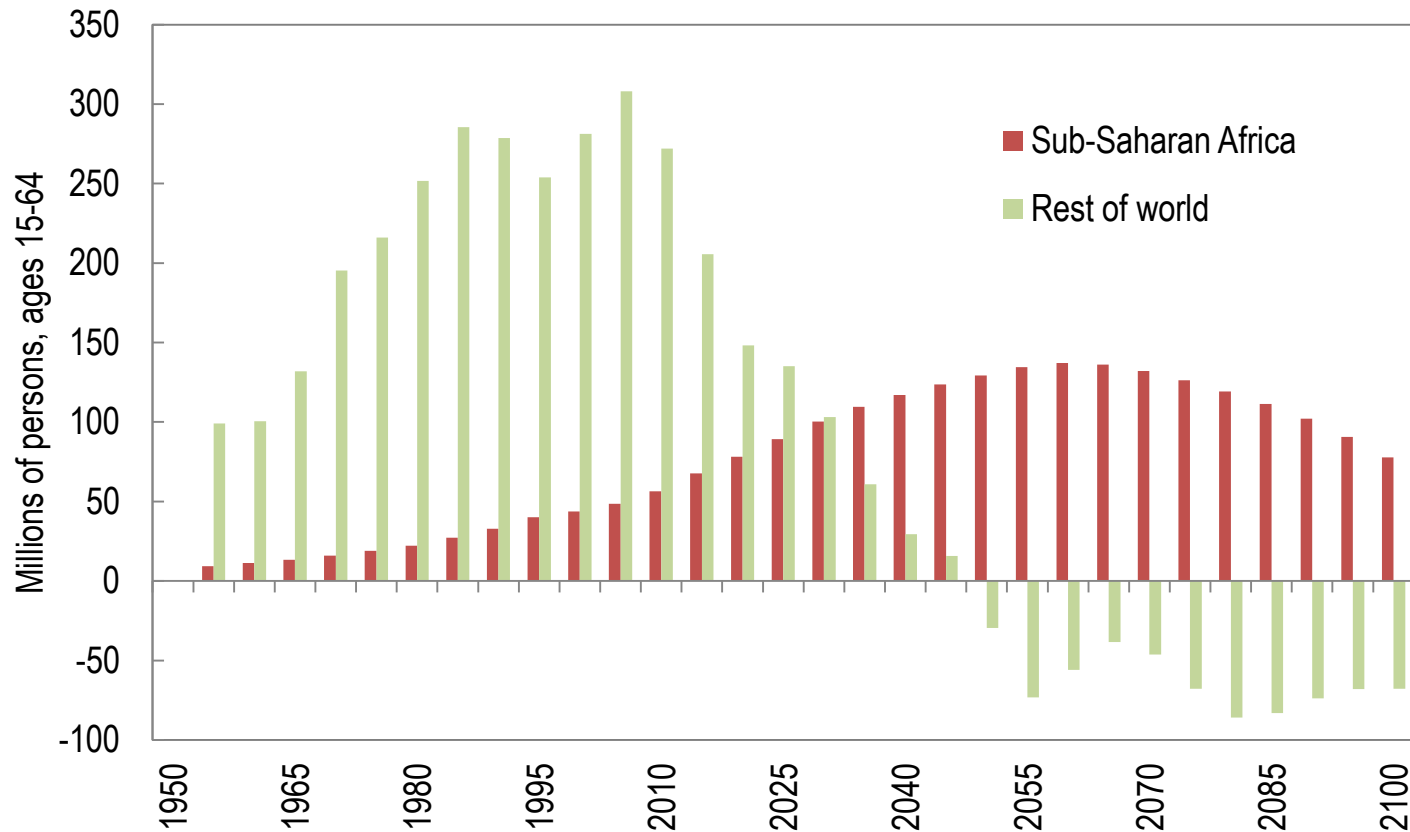
Real GDP Growth, 2010–20



And the region's demographic trends will entail important opportunities for growth



Change in Global Working-Age Population



Zimbabwe's economy



- Zimbabwe's economic and financial conditions remain difficult:
 - Slow growth, rising unemployment, economic activity increasingly shifting to the informal sector, a precarious external position, and very low levels of international reserves
- In addition, the country is in debt distress and is facing low commodity prices, an appreciating U.S. dollar, and subdued external inflows

Risks to the outlook



- Fiscal challenges
- Weak global commodity prices
- Adverse weather conditions
- Policy implementation in a difficult political environment

Opportunities



- Advancing the ongoing reforms
- Reengagement with the international community
 - Access to official financial support
 - Better credit risk and therefore lower costs of funds, including for the private sector
 - Private sector support by entities such as the IFC and EIB

The re-engagement process and cooperation with Zimbabwe going forward



- Zimbabwe needs to normalize its relations with international creditors, after more than a decade of noncooperation
- The authorities recently got the “green light” from its creditors to settle their overdue obligations with the AfDB, World Bank and IMF

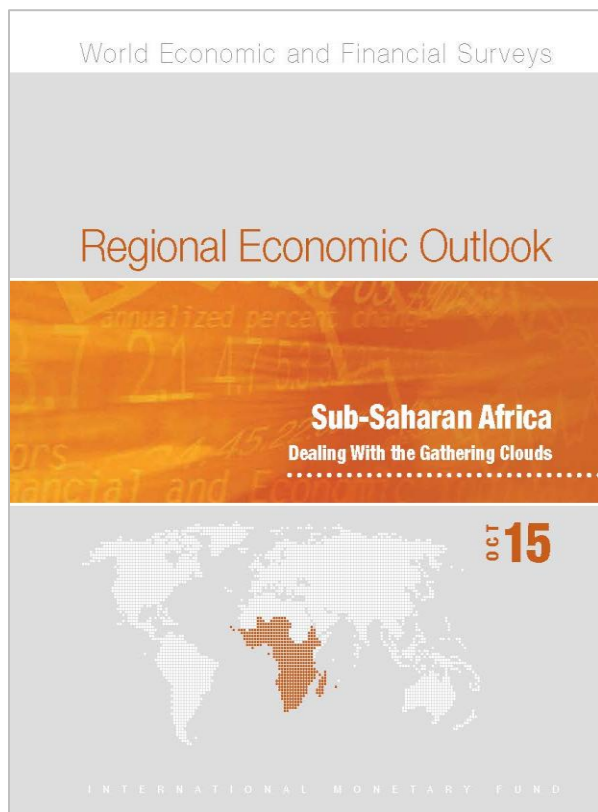


What next?

- Continued commitment to implementing sound macroeconomic and structural policies
- If all goes well, Zimbabwe could request a Fund-financial programme in 2016.
- The reform component would build on the SMP in an effort to address the more deep seated structural problems
 - Strong ownership of such a programme is key



Thank you!



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*Regional Economic Outlook
for sub-Saharan Africa*
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